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Weekly Highlights and Hot Bites #5

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Approved by:
Suzanne Heinen
U.S. Embassy Mexico City

Prepared by:
Benjamín Juárez and Jeff Nawn

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Includes PSD Changes: No
Includes Trade Matrix: No
Unscheduled Report
Mexico [MX1]
[MX]

Welcome to Hot Bites from Mexico, a weekly review of issues of interest to the U.S. agricultural community. The topics covered in this report reflect developments in Mexico that have been garnered during travel around the country, reported in the media, or offered by host country officials and agricultural analysts. Readers should understand that press articles are included in this report to provide insights into the Mexican "mood" facing U.S. agricultural exporters. Significant issues will be expanded upon in subsequent reports from this office.

AVOCADO EXPORTS TO ENTER ALL U.S. STATES

After more than two years of waiting, on February 1, 2007, the United States finally allowed Mexican avocado growers to export their product to all 50 states including California, Florida and Hawaii. The three states had been exempted when the U.S. Department of Agriculture first brokered a deal back in January 2005 that allowed Mexican avocados to enter the United States all year-round. The ruling will mean a 25-percent increase in U.S. exports for the nation's avocado farmers and puts an end to a long-running trade saga. According to Alfredo Rodriguez, the owner of Agro-Export, which oversees 5 percent of all avocados grown in Mexico, the increased access should translate into bumper profits for Mexican growers. "We are predicting an increase in U.S. sales of at least 25 percent and we think that figure will grow an additional 15 percent within the next three years, " Rodriguez said. Agro-Export currently exports 150 tons a week to the United States, the majority of which goes to McAllen, Texas. The United States first prohibited Mexican avocados in 1914, claiming they carried pests. The ban was partially lifted in February of 1997 when avocados from Michoacan were allowed into 13 northeastern U.S. states, but only from November to February. In November of 2001, 19 more U.S. states were allowed to import the avocados, and the season was lengthened from October 15 to April 15. By January 2005, all U.S. states accepted Mexican avocados all year-round with the exception of California, Florida and Hawaii. (Source: El Universal; 02/02/2007)

MEXICO DOES NOT HAVE AN INFLATION PROBLEM: ORTIZ

Mexican Central Bank Governor Guillermo Ortiz said the nation does not have a broad inflation problem. "There is not a generalized increase in prices,'' Ortiz said during the bank's quarterly press conference on the inflation outlook. "We do not have a general inflation problem.'' Mexico's 12-month inflation rate has been above the top end of the central bank's 2 percent to 4 percent target range since September because of rising prices for tortillas and sugar. Inflation, excluding these food items, has been steady, the Bank of Mexico said today in its quarterly inflation report. Ortiz used today's meeting to further explain language in the bank's January 26th monetary policy statement, where it signaled it is prepared to raise the overnight lending rate if necessary. Bank of Mexico held its overnight rate at 7 percent for a ninth consecutive month last week. Ortiz today said the board is prepared to lift borrowing costs should the increase spread to other prices in the economy and to inflation expectations. "We hope we do not see contamination,'' Ortiz said. "Obviously if it does occur we will adjust monetary policy.'' Both general and core inflation should end this year between 3.5 percent and 4 percent, down from between 4 percent and 4.5 percent for general inflation in the first half of the year, the bank said in its statement January 26. Inflation should fall to near 3 percent in 2008, Ortiz said today. Economists are split as to whether Bank of Mexico will be forced to raise rates during its February 23 meeting. At the same time, thousands of farmers, citizens groups and followers of losing presidential candidate Andres Manuel Lopez Obrador gathered at 3 p.m. Wednesday, January 31, to protest rising tortilla prices. The marchers blocked one lane of Mexico City's main boulevard, Paseo de la Reforma, en route to the city's central square, or Zocalo. Mexican President Felipe Calderon, who defeated Lopez Obrador in July 2 elections by less than 0.6 percentage point, unveiled measures on January 18 to control rising tortilla prices. The measures include an accord with thousands of retailers who have agreed not to charge more than 8.5 pesos ($0.77) for a kilogram of tortillas. The agreement has failed to bring down prices of the Mexican staple below the accord's target, according to data on the economy ministry's web site. The average tortilla price in Mexico today is 9.12 pesos per kilogram, according to the government survey, up from about 6 pesos per kilogram in January of 2006. (Source: Bloomberg; 02/01/2007)

MEXICO CITY'S CENTRAL SQUARE PROTEST CALLS ATTENTION TO HIGH PRICES

After two quiet months, demonstrators filled the capital's central square on Wednesday, protesting high food prices and clearly showing President Calderon his honeymoon is over. Rally organizers, primarily labor and "campesino" groups, issued a statement calling for more government action in balancing wages and prices, as well as more involvement by the social sector in that action. "Those who assure us they won the election have no right to monopolize public decisions," said Veronica Velasco, the television journalist chosen to read at the rally the "Zocalo Declaration" signed by the participating organizations. "What we are demanding today is sovereignty, both nutritional and energy, and the defense of salaries and jobs." Wednesday's march and rally grew out of widespread public anger at the suddenly skyrocketing prices of tortillas, the nation's staple food. The Calderon administration took belated action by forging an agreement among suppliers and manufacturers to hold the line at 8.50 pesos per kilo, with mixed results. The tortilla crisis has re-focused attention on the same ideological divide that embittered last year's presidential election. Calderon, who won by less than a percentage point, prefers market solutions to economic problems while most of the opposition has urged direct government action. Calderon's press office issued a statement after the rally Wednesday, saying the president shares the demonstrators´ concern about shrinking purchasing power, but indicating the administration will stick to its current market-oriented approach. "The federal government reiterates its firm commitment to combating poverty and generating the conditions that will permit our economy to create more and better jobs for everybody in a context of greater workplace competitiveness and productivity," the president said. Wednesday's statement by the protesters also called for renegotiating the agriculture sections of the North American Free Trade Agreement (NAFTA) and enacting an emergency minimum wage increase to offset the recent hikes in food and gasoline prices. Central Bank Governor Guillermo Ortiz nixed the wage hike idea hours before the march started. "It would be counterproductive for workers," he said. Wednesday's rally at the Zócalo (Mexico City's central square) took place under balmy, clear skies, and divided itself into two acts. Shortly after 6 p.m., the speakers´ stage was cleared, but about half the crowd stayed to hear presidential runner-up Andres Manuel Lopez Obrador speak. The former candidate had agreed to delay his speech until after the main event when some of the participating organizations complained about the injection of party politics into a nonpartisan citizens event. But Lopez Obrador's famed drawing power was evident as tens of thousands of his supporters marched down Madero Avenue even as other protesters were leaving in the opposite direction on parallel streets. "It is obvious that we must insist on changing the current economic policy," Lopez Obrador told the crowd. "Not just for ideological reasons but because it simply has not worked." (Source: El Universal; 02/01/2007)

GREENPEACE SAYS FLOUR MAKERS USE TRANSGENIC CORN IMPORTS

Greenpeace charged that the government is colluding with the country's two biggest flour makers to foist on consumers products made with genetically modified corn imported from the United States. At a news conference, Greenpeace said recent statements by Maseca and Minsa that they would buy only non-GM corn from the United States were false. Greenpeace representatives pointed to lab results they said backed up the accusation. "We bought 11 samples of flour from both firms at the supermarket and we sent them to Genetic ID, an independent U.S. lab that uses very precise protocols," said Areli Carreon, the coordinator of Greenpeace's consumer campaign in Mexico. "The analyses detected modified DNA, which confirms the presence of transgenics, in contrast to what (the firms) told consumers," she added. "The government cannot avoid this question. It must guarantee that we have corn to eat, but not just any corn. Are we guinea pigs?" Carreon asked. "We are not second-class consumers that eat products they do not want in Europe, where the border is closed to the entry of transgenics." Since 2003, Mexico has had a moratorium on imports of GM corn seeds for planting, but it allows controlled experiments to be carried out that do not endanger the country's biodiversity, Greenpeace sources told EFE. However, there is no rule regarding corn imports for human or animal consumption, said Gustavo Ampugnani, the coordinator of Greenpeace's transgenics campaign in Mexico. The organization estimated that the solution to the crisis caused by the rise in corn prices in Mexico does not lie in importing more grain, despite the measure adopted by the government of President Felipe Calderon, which authorized the immediate purchase of 650,000 tons this month. "Mexico has great biological wealth, with more than 50 types of corn, but the government does not devote money to researching them. The traditional crops have to be improved and incorporated into the irrigation system, and better technological systems have to be introduced," said Ampugnani. Carreon said she has "serious doubts" about the government's trustworthiness in the matter, "…given the support and promotion of transgenics by the secretary of agriculture, Alberto Cardenas." (Source; El Universal; 01/31/2007)

HIGH CORN PRICES WILL INCREASE MEAT PRICES

Higher costs of grains, not only of corn, but other feed grains like sorghum and soybeans, will eventually affect the final consumer prices of meat products. Raul de la Paz, President of the Mexican Meat Council (Comecarne), indicated that grain prices will remain high for the next one or two years, and that during that time period products such as hot dogs, cooked hams, cold cuts, hot chicken wings, and chicken cuts will be affected. However, the industry will try to limit the price hike. One strategy that is being considered is for the poultry and pork producers to make efforts to export their finer cuts of meat, such as chicken breasts, and keep domestic prices unchanged for other cuts. (Source: Financiero 02/02/07)

ETHANOL PROJECTS REQUIRE ADDITIONAL ANALYSIS

Launching a program to include ethanol in Mexican gasoline requires a more detailed analysis in order to prevent disruptions in the country's food distribution chain, according to some specialists. Jose Muñoz, president of the Citizens' Energy Observatory, commented that the government should evaluate potential crops to be used to obtain ethanol. He stated that ethanol in the United States is manufactured basically from corn; something understandable when you talk about the world's leader in corn production. "But it's a whole different thing to assume those same conditions for Mexico," which is currently facing a deficit in corn output. Muñoz mentioned that a similar situation applies for sugar cane used as input for ethanol generation, where there is a limited supply of available production. One of the advantages, he concluded, would be the reduction of imports of Methyl tert-butyl ether (MTBE), currently used to oxygenate fuels in Mexico. (EXCELSIOR, JAN. 29)

IMPORTS AND SMUGGLING POSE A SERIOUS THREAT TO BEAN GROWERS

According to Mexico's Agricultural Workers' Confederation (CNC), bean growers in Mexico are facing difficult times if the current imports and "technical smuggling" (using false information through Customs, claiming lower production costs or switching the product's origin to avoid duties) continue without a countervailing strategy. Cruz Lopez, president of the CNC, claimed that 40% of the beans consumed in Mexico fall under this category, jeopardizing one million MT of domestic production. According to Lopez, the GOM should shift its current policy and actively support the agricultural workers through programs that enhance organization, training, infrastructure development, financing, commercialization and insurance. "We're just running the risk without a loss-compensation mechanism, and there are no incentives to increase the grower's productivity", stated Lopez, who again requested to renegotiate the agricultural chapter of NAFTA. (LA JORNADA, JAN. 29)

PRD DEMANDS AN ADDITIONAL 5-YEAR PERIOD FOR LIBERALIZATION

Senators from the PRD announced they will propose a 5-year phase-in of Mexico's obligations under NAFTA's agricultural chapter, scheduled to fully liberalize agricultural trade in 2008. Sen. Arturo Herviz, vice-chair of the Senate's Agricultural Committee, stated that the GOM should protect the agricultural workers and introduce additional resources to the rural sector in order to prevent a social disaster, which would only translate into more illegal migration to the United States. He added that calculated planning should be enforced to decide which areas in Mexico will harvest corn, beans, sugar cane and all other strategic crops. Sen. Herviz commented that the Mexican Senate will explore its options to request this 5-year delay and invite the rest of the political factions in Congress to support these proposals. (EL SOL DE MEXICO, JAN. 30)

BIO-FUELS LAW TO BE APPROVED BY CONGRESS

There is a high probability that Congress will approve the Bio-fuels Law during the next session, which begins on February 1, 2007. Emilio Gamboa, leader of the PRI in the Lower House stated that all conditions are set to have the project approved in the near future. "It will come out, it's a priority, we'll approve it in this period," Gamboa stated. Adding, "There's a commitment by the PRI and we'll seek the agreements with PAN and PRD, but it's a fact." Meanwhile, Mexico's Secretary of Agriculture, Alberto Cardenas, announced they will lobby to have the Bio-fuels Law approved as soon as possible, as one of the first elements of a "2006-2012 Rural Deal" that will include actions and programs to face trade liberalization, adjust subsidies, create an adequate legal framework, promote bio-fuels and the use of GMO's and enhance agricultural productivity. (EXCELSIOR, JAN. 30 & REFORMA, JAN. 31)

BEANS NOT AFFECTED BY CURRENT PRICE INCREASE TREND; FEARS FOR 2008

Mexican beans are among the few products not affected by the current trend of price increases. Nonetheless, bean growers are cautious and concerned with their future. 2008 marks the full implementation of NAFTA. According to Mexico's Central Bank, bean imports accounted for almost $79 million in 2006, 45% more than 2005; meanwhile exports decreased 38%, to $12.5 million, compared to the year before. According to the National Bean Growers Union (UNPF), a total of 510,000 growers work almost 1.7 million hectares to produce beans. Only 20% of these lands are irrigated and the average output is 700 kilos per hectare, compared to 1,200 kilos per hectare in the United States and Canada. Also, only 24% of the crop production utilizes improved seeds, 21% receives technical assistance, 16% has plant health supervision, and less than 2% have insurance or credit. The UNPF believes the current GOM strategy of integrating growers and validating imported seeds have failed due to climate and technology differences. (EL FINANCIERO, FEB. 01)

SUGAR INDUSTRY NOT AFRAID OF NAFTA'S FULL IMPLEMENTATION

In stark contrast to the sentiments expressed by Mexico's corn, bean, and milk producers in Mexico, with respect to NAFTA's full implementation in 2008, sugar growers and processors are optimistic about accessing the U.S. sugar market, which last year imported a record 3.12 million MT of sugar. Mexico's National Sugar Cane Growers' Union (UNC) is now looking for additional funds and new technologies in order to increase sugar output to 6 million MT in the current year. Another key factor relates to the ethanol frenzy in the United States where there is a high chance that more sugar cane and sugar beets are also used as inputs for ethanol production, creating additional opportunities for Mexican sugar. Mexico's Central Bank reports that Mexican sugar exports in 2006 accounted for $379 million, 266% more than 2005. Meanwhile, imports account for $170 million. (EL FINANCIERO, FEB. 01)

REPORTS RECENTLY SUBMITTED BY FAS/MEXICO CITY

NUMBER	TITLE	DATE
MX7010	Weekly Highlights and Hot Bites #4	1/30/2007
MX7009	Announces a Corn Import TRQ from WTO Member Countries	1/29/07
MX7008	Mexico Announces TRQ (Cupos) for Milk Powder Imports from the United States for 2007	1/23/07
MX7007	Mexico Announces the TRQ for Milk Powder Imports from WTO Member Countries	1/23/07
MX7006	DDGS Market	1/19/07
MX7005	Weekly Highlights and Hot Bites #3	1/19/2007
MX7004	Tortilla and Corn Price Surge	1/18/07
MX7003	Tax on the use of HFCS on Beverages was Eliminated	1/17/07
MX7002	Weekly Highlights and Hot Bites #2	1/12/07
MX7001	Weekly Highlights and Hot Bites #1	1/8/07

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To reach us at FAS/Mexico:

AgMexico@usda.gov , **ATOMexico@usda.gov**, or **ATOMonterrey@usda.gov**